

## **SECTION II**

### **REGIONAL AND GEOSTRATEGIC DEVELOPMENTS**

The following section groups topics relating to the regional and geostrategic consequences of China's emergence as a major force. These are China's economic and security impacts in Asia and the current challenges of Hong Kong and Taiwan; China's proliferation practices and the challenge of North Korea; and China's energy needs and strategies.

Chapter 4 examines China's increasing prominence in Asia. Through trade and investment, China has become increasingly interconnected with its Asian neighbors. Investors from Hong Kong, Taiwan, Japan, South Korea, and Southeast Asia are helping to fuel the export processing industries of China that, through global supply chains, deliver to the United States and Europe a wide array of manufactured goods. China's industrial growth has attracted foreign direct investment that might otherwise have gone elsewhere; some industries in Northeast and Southeast Asia have been displaced by competition from China, but Asian suppliers also have been increasingly feeding China's export processing industries and domestic markets. Large trade surpluses with China in 2002–03 have contributed to the growth of most East Asian economies.

Enhanced regional economic linkages have served China's political agenda. Through increasingly active and sophisticated bilateral and multilateral diplomacy, China is presenting itself as a country that is peacefully rising, offering, as it grows, win-win solutions for its economic partners in Asia. It has become more willing, in the past several years, to participate actively in multilateral fora on both economic and security issues—such as APEC, the ASEAN Regional Forum, and the Shanghai Cooperation Organization. Evidence indicates that this diplomatic strategy is making inroads for China, despite a wariness of China's growing military power, particularly on the part of Japan.

Cultivating relationships in Asia buys China time and space to pursue its economic development and harness its economic growth to military modernization. This is transforming the balance of military power in East Asia, particularly in the Taiwan Strait, China's main focus for a potential use of force.

Within the regional dynamic, Chapter 4 explores the difficult challenges for U.S. interests arising from China's relationships with Hong Kong and Taiwan. In these cases, China has not been offering win-win political solutions. China has positioned its military to deter Taiwan from taking political steps Beijing considers unacceptable moves toward independence and to coerce Taiwan to end the island's separate status. Clearly concerned about Taiwan President Chen Shui-bian's reelection and Chen's plan for constitu-

tional revision, China has not offered any vision for a workable resolution of cross-Strait conflict beyond unification under the “one country, two systems” formula. This formula, rejected in Taiwan, is being sorely tested in Hong Kong, where Chinese sovereignty is not disputed. China’s National People’s Congress has frustrated demands for greater democracy in Hong Kong by making unilateral decisions to block further development of constitutionally allowed self-governance, and Beijing has prohibited legislative debate on this matter in Hong Kong.

Chapter 5 looks at China’s weapons proliferation practices and its role in the North Korean nuclear crisis. While becoming enmeshed in the capitalist economies of Asia and the West, China has maintained its traditional state patron-client relationship with North Korea. China has become a major diplomatic player in the ongoing standoff with North Korea over Pyongyang’s development of nuclear weapons. As host of the Six Party Talks, China has helped bring North Korea to the table; but has not adequately employed its considerable political and economic leverage over North Korea to drive Pyongyang toward acceptance of the goal of achieving a complete, verifiable, and irreversible dismantlement of North Korea’s nuclear weapons programs.

Even as China professes to support the goal of a non-nuclear Korean Peninsula and claims to oppose WMD proliferation generally, China’s own proliferation practices remain an ongoing concern. Chinese state companies continue to pursue deals to sell WMD-related items to countries of concern to the United States. The United States has repeatedly imposed sanctions in response to these activities; but sanctions remain limited to penalizing offending companies, despite many of these companies’ direct affiliation with top levels of the PRC government or military.

Lastly, Chapter 6 examines the impact of China’s rapidly growing economy on its energy needs, the implications for global energy supplies, and how this impacts China’s geopolitical relations. China has moved past Japan to rank second (behind the United States) in global energy consumption, and is the world’s second largest oil consumer and its third largest oil importer. These trends have made China increasingly dependent on outside energy sources. China’s energy demands and the means by which it is attempting to address them have put added pressure on global petroleum supplies and prices.

Energy needs have driven China closer to the Middle East and Africa, as well as neighbors in Central Asia, Russia, and the Pacific. China seeks to lock in secure energy supplies, especially new sources of gas and oil not subject to potential disruption in a time of conflict. China has sought energy cooperation with countries of concern to the United States, including Iran and Sudan, which are inaccessible to U.S. and other western firms. Some analysts have voiced suspicions that China may have offered WMD-related transfers as a component of some of its energy deals.

Taken as a whole, China’s growing economic and political clout have important implications for its relations in Asia and beyond, with direct implications for U.S. diplomacy in Asia and for U.S. cross-Strait, nonproliferation, and energy security policies.